

16 June 1975

CSAD Instruction No. 8

SUBJECT: Surveys and Relationship with Cost Accounting Standards

1. The attached survey form, No. 3771 dated April 1975, has been designed to conform with disclosure statements required by the Cost Accounting Standards Board under Public Law 91-379. At the present time, each company which together with its subsidiaries received net awards of negotiated contracts during either of Federal Fiscal Years 1972 or 1973 totaling more than \$10 million (originally \$30 million), and is entering into a negotiated contract in excess of \$100,000, is required to file a disclosure statement. (The Board has proposed that effective 1 July 1975 any company, including subsidiaries, that has received negotiated national defense prime contracts subject to Cost Accounting Standards totaling more than \$10 million in Federal Fiscal Years 1974 or 1975 be required to submit a disclosure statement.) In the event the entity being surveyed has completed Form CASB-DS-1 (Disclosure Statement), a copy, if not previously furnished to the Agency, should be secured from the contractor. Page 1 through 4 (Basic Information), of the attached will be completed by the auditor but Parts I through VIII will be replaced by the contractor's completed Form CASB-DS-1. All pertinent parts of the attached survey form will be completed by the auditor for those companies not required to file a disclosure statement and with whom we are entering into a negotiated contract in excess of \$100,000.

2. The completed survey forms are to be used for the purpose of determining initially whether a prospective Agency contractor has an acceptable cost accounting system for ready determination of contract costs. Additionally it will be used on subsequent audits to ensure consistent cost treatment in the preparation of proposals and accumulation of actual costs, consistent application on Agency contracts with other Government contracts, and also to determine whether the contractor's system has complied with duly promulgated Cost Accounting Standards.

3. Until January 1975 Cost Accounting Standards were applicable to all negotiated contracts in excess of \$100,000 (not only to those contractors who were required to file disclosure statements), unless specifically exempt by the Cost Accounting Standard. Effective 1 January 1975, the CASB has changed the threshold level of contracts subject to Cost Accounting Standards from \$100,000 to \$500,000. After a contractor receives one \$500,000 contract all subsequent contracts over \$100,000 will also be subject to Cost Accounting Standards.

4. The auditors are expected to become familiar with Cost Accounting Standards as they are promulgated, review contractor's practices and advise them if not in compliance. Follow up will be made to ensure compliance and/or recommendation for adjustment to contract price for failure to comply or to follow consistently cost accounting practices in pricing proposals and in accumulating and reporting contract performance data.

5. To date the following Cost Accounting Standards have been issued:

CAS 401 - Consistency in Estimating, Accumulating, and Reporting Costs - effective 7/01/72 - no exemptions.

CAS 402 - Consistency in Allocating Costs Incurred for the Same Purpose - effective 7/01/72 - no exemptions.

CAS 403 - Allocation of Home Office Expenses to Segments - effective 7/01/73 (to be followed by each contractor as of the beginning of his next fiscal year after 9/30/73) Exemption - those contractors who are not required to submit disclosure statements.

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CSAD Instruction No. 8 (Continued)

SUBJECT: Survey and Relationship with Cost Accounting Standards

CAS 404 - Capitalization of Tangible Assets - effective 7/01/73
(Applicable to accrued expenditures for acquisition of tangible capital assets during the contractor's next fiscal year beginning on or after 10/01/73.) - no exemptions.

CAS 405 - Accounting for Unallowable Costs - Effective 4/01/74 - no exemptions.

CAS 406 - Cost Accounting Periods - effective 7/01/74 - no exemptions.

CAS 407 - Use of Standard Costs for Direct Material and Direct Labor - effective 10/01/74 - no exemptions.

CAS 408 - Accounting for Costs of Compensated Personal Absence - effective 7/01/75 - no exemptions.

CAS 409 - Depreciation of Tangible Capital Assets - effective 7/01/75 - does not apply where compensation for the use of tangible capital assets is based on use allowances as provided for by the provision of FMC-73-8 (cost principles for Educational Institutions); FMC-74-4 (principles for determining costs applicable to grants and contracts with state and local governments), or other appropriate Federal Procurement Regulations. (Although the effective date is 7/01/75 the Senate Subcommittee is currently investigating to determine whether the Standard imposes such an unreasonable burden on industry that it is inconsistent with National Economic Policy and sound procurements objectives.)

Proposed CAS 410 - Allocation of Business Unit General and Administrative Expense to cost Objectives.

Proposed CAS 411 - Accounting for Acquisition Costs of Materials.

6. Auditors are expected to prepare Form No. 3771 (or secure a copy of Form GASC-DS-1, if not already in our files) on those contractors with whom we have a significant dollar volume of business, on their next visit.

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Chief
Commercial Systems and Audit Division